

# BEGINNER'S GUIDE TO PRIVATE LENDING INVESTING



Can your IRA invest  
in Private Lending?  
At NDTCO, the answer is...

YES

The word 'YES' is written in large, bold, orange capital letters. It is superimposed over a background image of a city skyline with various skyscrapers and buildings. In the foreground, there is a dense line of green trees. The sky is a clear, light blue with some light clouds. The overall scene is bright and clear, suggesting a positive and confident answer to the question posed above.

## PRIVATE LENDING

# At a Glance

Self-directed IRA lending allows your IRA to loan money to non-disqualified persons/entities. The IRA receives principal and interest, similar to a bank. The IRA holder chooses the borrower, principal amount, interest rate, length of the term and payment frequency. The account holder also decides whether or not the note is secured by collateral. Your IRA can also purchase existing notes as assets for the account. NDTCO will not fund transactions with interest rates less than 2%, as it could be perceived as a gift loan.

Since the inception of IRAs, it has been possible for these accounts to participate in lending. However, it has not always been easy to find a self-directed IRA provider who allows IRA lending investments. Here at New Direction Trust Company, we make investing in private lending easy.

The IRS requires an authorized IRA provider for all IRAs. New Direction Trust Company (NDTCO) provides services for all types of IRA lending. The IRA account holder handles the investment strategy and negotiation. Then, NDTCO is instructed by the account holder to send money from the IRA to fund the loan. We make sure the paperwork substantiates the loan, is an investment made by your IRA, and deserves the tax benefits associated with the account type.

**Any account offered by NDTCO can invest in private lending!**





PRIVATE LENDING

# The Benefits

## DIVERSIFICATION

*Whether it's your brother's startup or a local brewery, your self directed account can lend money to individuals or businesses.*

## INDEPENDENCE

*Our world-class online service allows you to complete all necessary paperwork seamlessly through our online portal.*

## SECURITY

*You choose the terms. Although your account is technically the "lender," as the account holder, you have the power to qualify buyers and make final decisions on loan terms and interest rates.*

## OWNERSHIP

*As the account holder, you can negotiate with the borrower to determine whether the loan will have security or not. Typically, security instruments will include a deed of trust, a vehicle title, etc.*

OPEN ACCOUNT



# Possible Structures



Individual Loans



Business Startup Loans



Business Capital Infusion

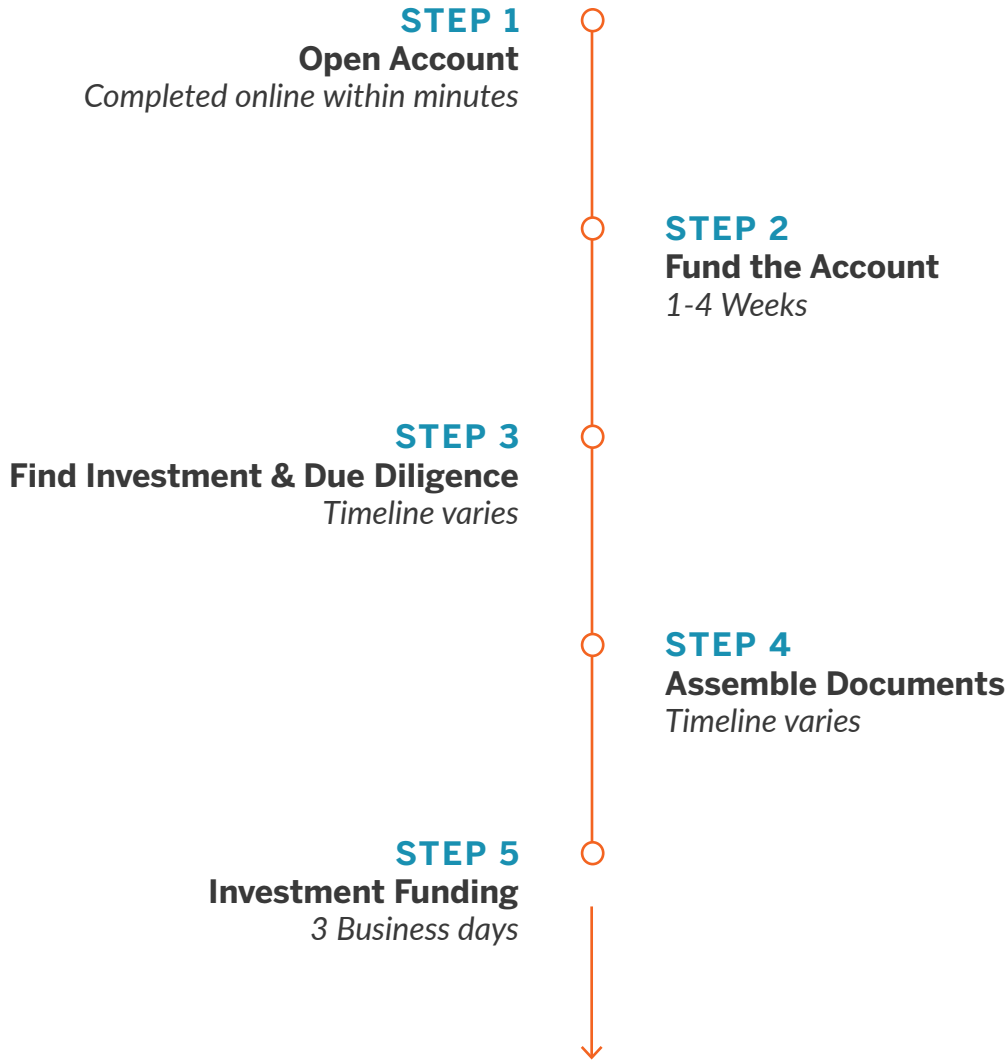


Purchase of Existing Loans

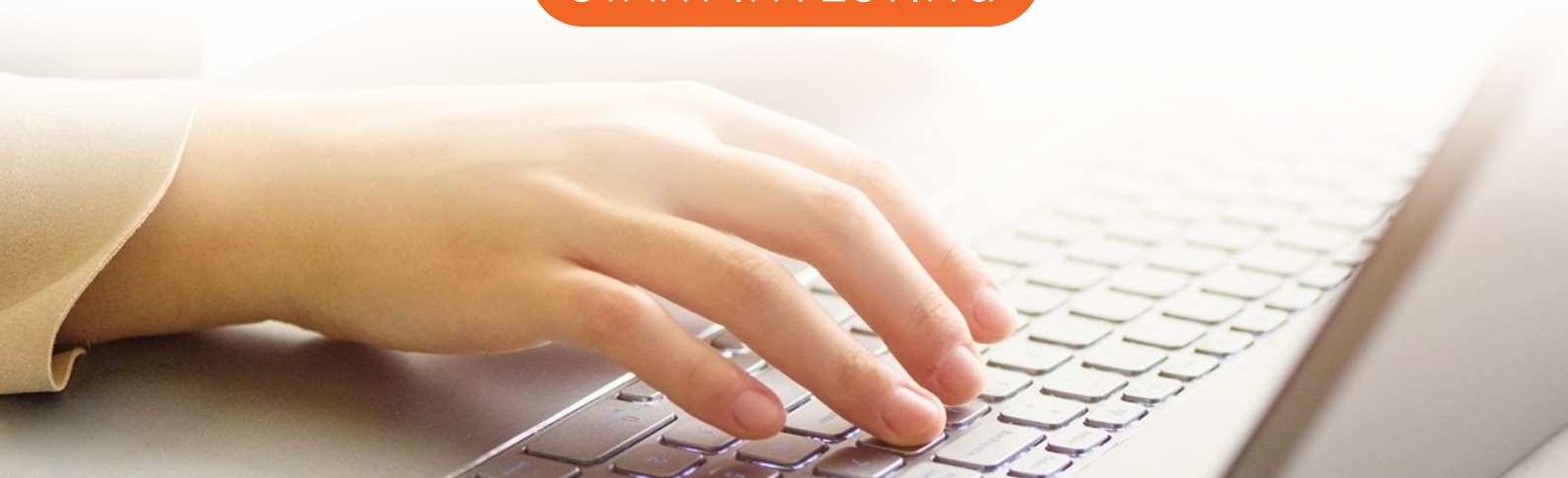
PRIVATE LENDING

# The Investment Process

*Private Lending Investment Timeline*



START INVESTING





# The Investment Process

## Collateral

The IRA holder chooses the borrower and negotiates the specifics of the loan. One of the key decisions is whether to attach collateral to the loan. The IRS allows the IRA holder to decide whether or not the loan will be secured by collateral and, if so, what the collateral will be. Please note that collateral must be an **asset that an IRA can hold**. Not all loans require collateral, and leaving a note unsecured is a decision that falls upon the account holder. If a client chooses a secured loan, it is the client's responsibility to record any associated Deed of Trust and then file the release of Deed of Trust once the loan is paid off.

Due diligence on the borrower is the task of the IRA holder. Considerations during the due diligence process may include making sure the borrower is in a position to pay the loan off or making certain the loan document gives the IRA a clear path to the collateral in the event of default.

## Cash Flow

As the IRA holder, you can specify whether your account is to receive monthly, quarterly, or even annual payments. **The borrower must make at least one payment per year.** The payment can be applied to interest, principle, or both, as long as there is at least one annual payment.

Keep in mind the lender is your IRA; all loan payments, principal and interest, flow directly back to the IRA, not into your personal accounts. Once the payment has been received by your IRA, you decide what to do with that money: reinvest it, leave it in a cash position, etc.



## Titling Instruction/Buyer Information

Because your IRA is the lender, all investment documents must be titled in the name of the IRA, not your name personally.

The promissory note should contain the following items:

- ▲ Interest rate
- ▲ Maturity date
- ▲ Principal amount
- ▲ Repayment terms
- ▲ Lender name (NDTCO as custodian FBO Client's Name, IRA)
  - ▲ Lender's signature line left blank, we need your signature as "Read and Approved" in the margins
- ▲ Borrower name with wet ink signature
- ▲ Borrower's wire instructions or check delivery instructions

## Due Diligence

As the IRA holder, you are responsible for performing due diligence on your IRA's investments. Neither the IRS nor NDTCO researches or endorses the investments, businesses, or principals involved in your IRA's transactions. A competent professional in the legal, financial advice or accounting fields can also be engaged if you need additional help deciding if the investment being considered is legitimate, meets your risk tolerance, and is right for your investment goals.

New Direction Trust Company reviews the note to ensure it contains the required content, however it is your responsibility to create, monitor and execute the terms and conditions of the note.





# Disqualified Persons

All IRAs have a list of people who are disqualified from having certain interactions with that account (called disqualified persons). Below is a list of persons that are considered to be “disqualified” by the IRS. Keep in mind that any entity that is owned or controlled by a disqualified person or combination of disqualified persons may also be disqualified.

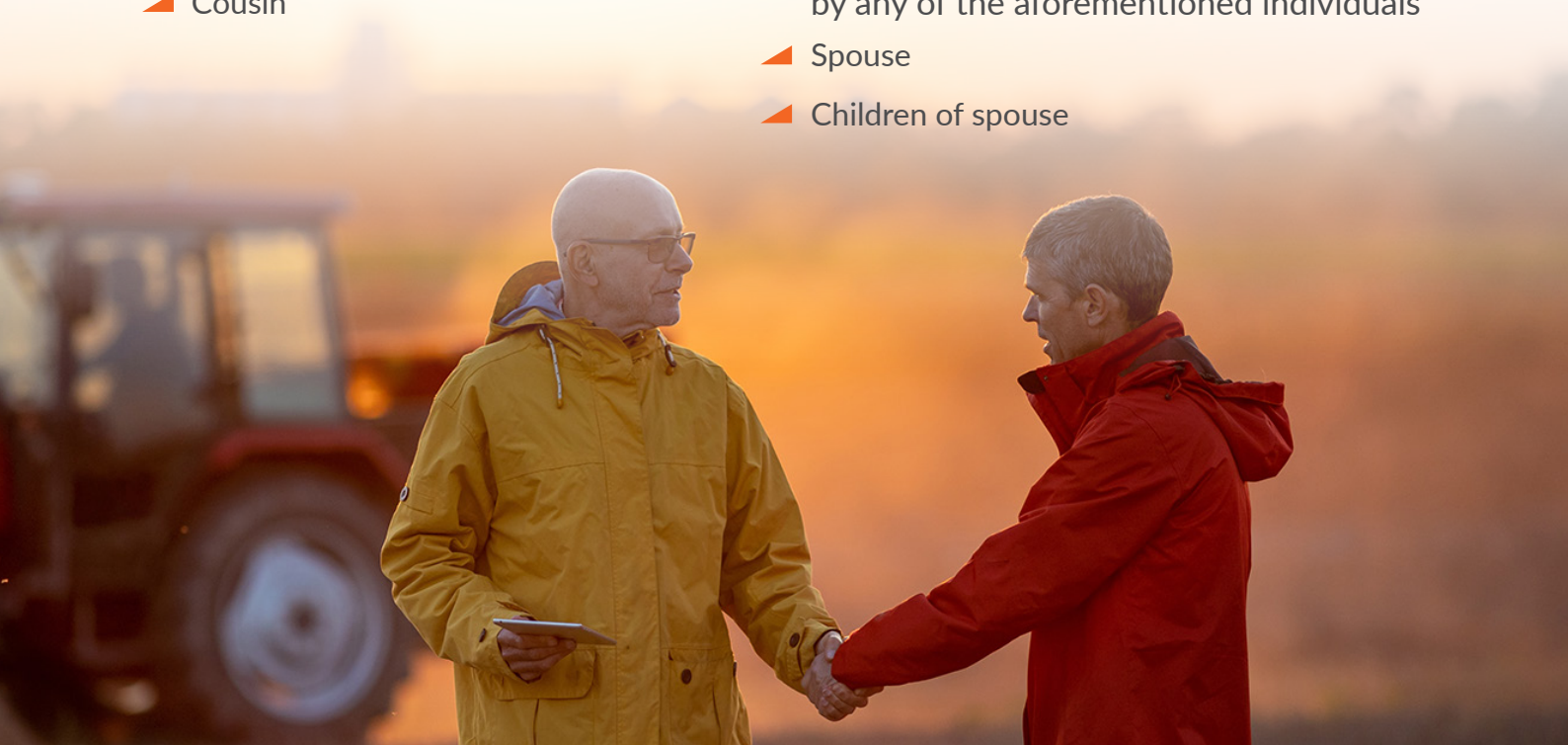
Additionally, you cannot receive the dividend or distribution payments personally, they must come to the account. You cannot invest retirement funds with a disqualified person or entity. Visit [this page](#) for everything you need to know about disqualified persons or prohibited transactions.

## NON-DISQUALIFIED PERSONS

- ▲ Brother
- ▲ Sister
- ▲ Brother-in-law
- ▲ Sister-in-law
- ▲ Niece
- ▲ Nephew
- ▲ Aunt
- ▲ Uncle
- ▲ Cousin

## DISQUALIFIED PERSONS & ENTITIES

- ▲ The account holder (you)
- ▲ The account holder’s linear ascendants (parents, grandparents, etc.)
- ▲ The account holder’s linear descendants (children, grandchildren, etc.) and their spouses
- ▲ Fiduciaries to the account (accountants, financial advisors, attorneys, etc.)
- ▲ Tax-advantaged savings accounts held by any of the aforementioned individuals
- ▲ Businesses or entities owned or controlled by any of the aforementioned individuals
- ▲ Spouse
- ▲ Children of spouse



# Prohibited Transactions

The following actions are considered prohibited transactions and could result in the distribution of this asset from your plan. Prohibited transactions apply to all disqualified persons to your plan.

- ▲ Receive loan payments directly instead of having them go to the IRA
- ▲ Engaging in private lending between your account and a disqualified person
- ▲ Yield a commission/fee for the purchase, sale, or exchange of assets
- ▲ Cover account expenses with personal, non-account funds
- ▲ Use of your IRA's assets as collateral for a personal loan
- ▲ Use of your IRA's assets to guarantee credit for a loan

All expenses for the investment are the IRA's responsibility. Never pay any bills with personal funds. Such payments may be considered prohibited transactions, which could jeopardize the tax-advantaged status of your IRA. You can learn more about prohibited transactions [here](#).



# Using Third Parties for the IRA Loan

## Preparing Loan Documents

- ▶ NDTCO does not provide loan document templates or verify verbiage of the document. Outside parties like attorneys and title companies can be used to prepare the note.
- ▶ An Interested Party Designation (IPD) form is required for NDTCO to work with and communicate with outside parties preparing the loan.
- ▶ Coordination with outside parties such as title companies or attorneys is your responsibility. If you need assistance with this coordination, NDTCO can provide assistance.
- ▶ If you are using someone to prepare your loan documents, the IRA will need to pay the fees incurred for this service.

## Loan Services

- ▶ NDTCO does not provide loan services other than accepting payments.
- ▶ If you are using a loan servicer, the IRA will need to pay the fees incurred by this service.
- ▶ The borrower will make payments to the loan servicer and the loan servicer will pass along the payments to your IRA. The loan servicer will track payments on behalf of your IRA.
- ▶ If you wish to designate a third party loan servicer, please provide us with the loan servicing agreement.
- ▶ An Interested Party Designation (IPD) form is required for New Direction Trust Company to work with the loan servicer directly.
- ▶ Coordination with outside parties such as a loan servicer is your responsibility.





PRIVATE LENDING

# Why NDTCO?



## DIGITAL INNOVATION

*We are relentless in our mission to modernize and digitize by building tools and platforms that make self direction easier, more streamlined, and more intuitive.*



## TIRELESS EDUCATION

*Providing you with the knowledge and insight to succeed has always been our top priority. We continually host webinars, create resources, and develop educational tools that help empower and guide you.*



## DEDICATED CLIENT SERVICES

*A real person is always available to help with all of your account management needs. If you need assistance, a knowledgeable, educated person is here to help empower you.*

GET STARTED



# NDTCO Client Portal

Our online **Client Portal** combines human power and digital innovation, making it simple to view all your account information in one centralized location. Within the client portal, you have the ability to directly message our support team, review recent transactions, download account documents, and review a vast library of educational content easily and securely.

## Direct Messaging

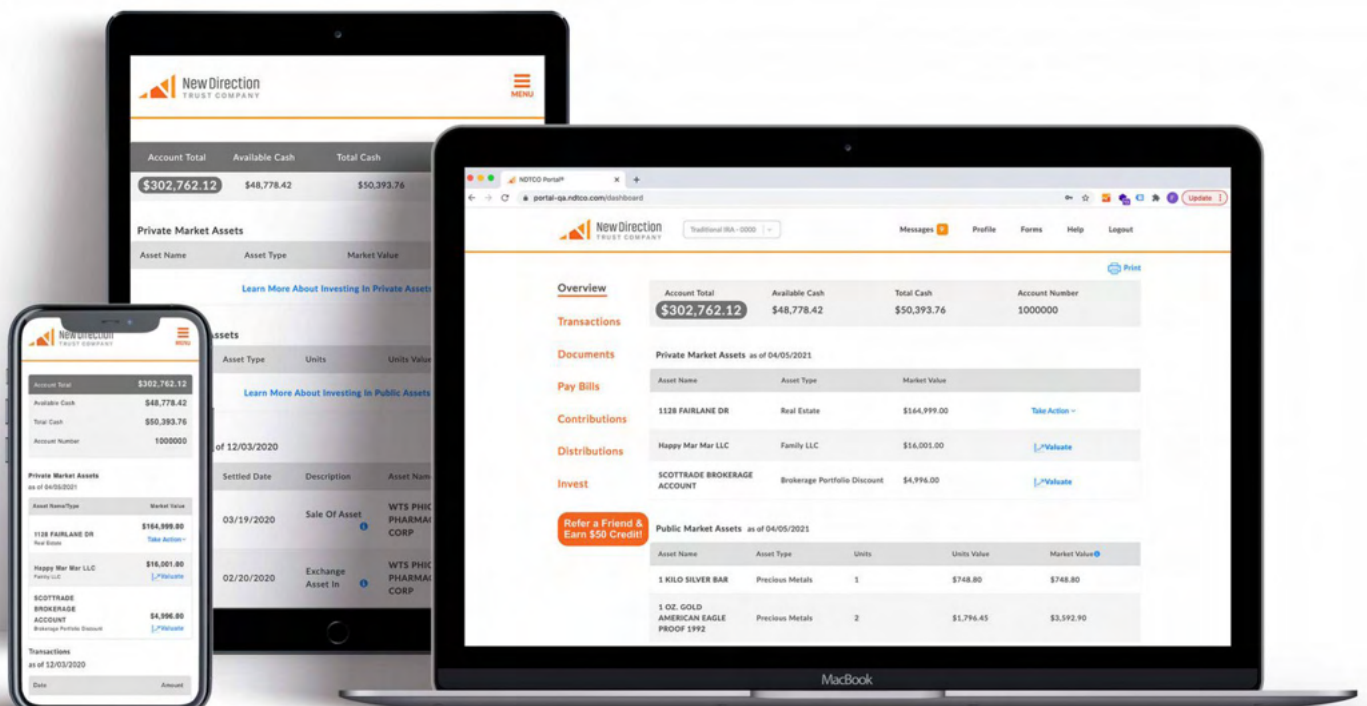
Communicate quickly and easily through the secure messaging center. Be confident in sending transaction and account-related documentation directly and safely to the NDTCO team.

## Bill Payment

Quickly and easily pay vendors or bills related to any of your assets. For example, set up scheduled payments for your HOA and/or mortgage, or simply make a one-time payment via check or ACH.

## 24/7 Management

Easily manage your account details anytime, from anywhere. Check your account balances and transactions, update your contact information, generate statements, and designate your beneficiaries easily and securely.



# The Answers (FAQ)

## Who can I not lend to?

All IRAs have a list of people who are disqualified from certain interactions with that account (called prohibited transactions). Keep in mind that any entity that is owned or controlled by a disqualified person or combination of disqualified persons may also be disqualified. Your IRA cannot make a loan to yourself or any disqualified person or entity. Visit [this page](#) for everything you need to know about disqualified persons or prohibited transactions.

## Is an annual Fair Market Valuation required?

Per IRS regulations, each retirement account must be valued annually. Once per year, NDTCO accounts that hold promissory notes must complete a Fair Market Valuation (FMV). You can learn more about FMVs by visiting [this page](#).

## How does a borrower deposit money into my IRA?

The borrower needs to ensure that all principal and interest payments go directly back to your retirement account, not to your personal bank account.

## Am I required to attach collateral to the loan?

The IRA holder chooses the borrower and negotiates the specifics of the loan. One of the key decisions is whether to attach collateral to the loan. The IRS allows the IRA holder to decide whether or not the loan will be secured by collateral and, if so, what the collateral will be. Not all loans require collateral, and leaving a note unsecured is a decision that falls upon the account holder. If a client chooses a secured loan, it is the client's responsibility to record any associated Deed of Trust and then file the release of Deed of Trust once the loan is paid off.

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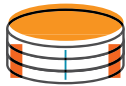


# Get Started With NDTCO



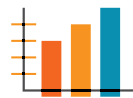
## STEP 1 Open An Account

Choose the account that's right for you, and complete an online application in 15 minutes or less.



## STEP 3 Choose Your Investment

Once you've landed on a strategy, establish the terms of the transaction, draw up the contract, and fund the purchase.



## STEP 2 Fund Your Account

Prepare your self-directed account for launch by financing your account via contribution, transfer or rollover.



## STEP 4 Manage Your Account

Manage your portfolio securely and with ease or dive into our investment tools from your Client Portal.

OPEN ACCOUNT



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